

OLL 85-2559

Office of Legislative Liaison
Routing Slip

TO:	ACTION	INFO
1. D/OLL		X
2. DD/OLL		X
3. Admin Officer		
4. Liaison		X
5. Legislation	X	
6.		X
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Remarks:	

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

August 27, 1985

LEGISLATIVE REFERRAL MEMORANDUM

LEGISLATIVE LIAISON
85-2559
(Legat.)
SPECIAL

TO: Legislative Liaison Officer

Office of Personnel Management
Department of State
Department of the Treasury
Department of Transportation
Department of Justice
Central Intelligence Agency

SUBJECT: Postal Service Testimony for September 9 on S. 1527 -
Supplemental Retirement System

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than September 3, 1985.

Questions should be referred to Hilda Schreiber
(395-7362) or to -----(-----),
the legislative analyst in this office.

Naomi R. Sweeney
Naomi R. Sweeney for
Assistant Director for
Legislative Reference

Enclosures

STATEMENT OF DAVID H. CHARTERS
ASSISTANT POSTMASTER GENERAL, EMPLOYEE RELATIONS DEPARTMENT
ON S.1527
BEFORE THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

September 9, 1985

Good morning. My name is David Charters, Assistant Postmaster General, Employee Relations Department, and I am here representing Postmaster General Paul N. Carlin. I am accompanied by Thomas S. McCall, General Manager of our Compensation Services Division.

We appreciate the opportunity to testify and would like to begin with what we consider the four major ingredients for a good retirement program for postal employees. The program must:

- (1) Be fair, and actuarially sound.
- (2) Be reasonably economical and fair to the postal rate payers who help finance it.
- (3) Help to attract and retain the high quality employees we need to serve the public.
- (4) Generate sufficient predictable income for retirees to enjoy a reasonable standard of living.

The proposed bill, we believe, substantially contains the above ingredients.

Our overall reaction to the bill is that it is a sound, well-constructed plan, which would be attractive to new employees. While the bill offers the greatest benefits to the long career employees, it will also provide retirement alternatives for employees seeking more flexibility. It provides portability through Social Security and the opportunity for a departing employee to withdraw his thrift account prior to retirement and roll it over into an IRA, thus never losing the value of that part of the plan.

WE BELIEVE THAT ANY RETIREMENT PROGRAM SHOULD HAVE A DEFINED BENEFIT TO ALLOW EMPLOYEES TO PROJECT, IN ADVANCE OF RETIREMENT, THE LEVEL OF RETIREMENT INCOME THEY CAN EXPECT, THEREBY PROVIDING THE OPPORTUNITY FOR THE EMPLOYEE TO DECIDE IF HE NEEDS OR WANTS A LARGER RETURN THAN THAT PROVIDED. THE BASIC PLAN PROVIDES THIS NEEDED DEFINED BENEFIT.

THE REPLACEMENT RATE OF AN ANNUITY SHOULD IDEALLY BE AN AMOUNT EQUAL, AFTER TAXES, TO THE TAKE HOME PAY RECEIVED IMMEDIATELY PRIOR TO RETIREMENT. WHEN AN EMPLOYEE RECEIVES THIS AMOUNT IN RETIREMENT INCOME, THERE IS NO NEED TO CHANGE HIS STANDARD OF LIVING. THE REPLACEMENT RATE VARIES DEPENDING ON THE EMPLOYEE'S LEVEL OF INCOME. NORMALLY, IT WILL BE IN THE RANGE OF 65 TO 75 PERCENT, WITH THE HIGHER RATE APPLICABLE TO LOWER INCOMES. THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM DOES NOT PROVIDE THIS LEVEL OF REPLACEMENT UNTIL AN EMPLOYEE HAS 35 OR MORE YEARS OF SERVICE. THE PROPOSED BILL PROVIDES THE OPPORTUNITY FOR AN EMPLOYEE TO ACHIEVE OR EVEN EXCEED THE DESIRED REPLACEMENT RATE THROUGH PARTICIPATION IN THE THRIFT SAVINGS PLAN.

WE BELIEVE THAT AN EMPLOYEE HAS AN OBLIGATION, INDEED A RESPONSIBILITY, TO BECOME INVOLVED IN PREPARATION FOR EVENTUAL RETIREMENT. THE THRIFT SAVINGS PLAN PROVIDES THIS OPPORTUNITY. THE TAX-DEFERRED STATUS OF INDIVIDUAL CONTRIBUTIONS TO THE THRIFT SAVINGS PLAN, PLUS THE EMPLOYER'S MATCHING CONTRIBUTION UP TO 5 PERCENT, SHOULD PROVIDE AN INCENTIVE FOR INDIVIDUALS TO

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PARTICIPATE IN THE THRIFT PLAN. OUR ONLY CONCERN WITH THE THRIFT SAVINGS PLAN IS WHETHER OUR EMPLOYEES, WHO PREDOMINATELY ARE IN THE \$20,000 TO \$30,000 INCOME RANGE, WILL VIEW THEIR NEED FOR CURRENT INCOME AS GREATER THAN THEIR NEED TO PLAN FOR RETIREMENT. WE BELIEVE THAT THE ABILITY TO CHANGE THEIR CONTRIBUTIONS TO THE THRIFT SAVINGS PLAN ANNUALLY WILL ALLEVIATE SOME OF THE ADVERSE EFFECTS THAT COULD RESULT FROM AN INITIAL CHOICE IN FAVOR OF CURRENT INCOME RATHER THAN RETIREMENT SECURITY. THE THRIFT PLAN'S ABILITY TO MAKE HARDSHIP LOANS SHOULD ALSO ASSIST IN GREATER PARTICIPATION.

WE ALSO NOTE THAT THE PROPOSED PLAN, WHILE ALLOWING RETIREMENT PRIOR TO AGE 62, CONTAINS PENALTIES FOR THOSE WHO RETIRE AT ANY AGE PRIOR TO 62. SINCE THE AVERAGE POSTAL EMPLOYEE CURRENTLY RETIRES AT 61.7 YEARS OF AGE, WE DO NOT BELIEVE THIS PROVISION WILL HAVE A DRAMATIC IMPACT ON POSTAL SERVICE EMPLOYEES.

WE BELIEVE THE LONG-TERM DISABILITY BENEFIT PROVIDED TO EMPLOYEES WHO ARE UNABLE, DUE TO SICKNESS OR INJURY, TO PERFORM THE DUTIES OF THEIR JOB IS AN EXCELLENT BENEFIT THAT IS NOT CURRENTLY AVAILABLE. WHILE INJURY COMPENSATION PROVIDES FOR THOSE INJURED ON THE JOB, THERE IS CURRENTLY NO CORRESPONDING PROTECTION FOR THOSE WHOSE ILLNESS OR INJURY IS ^{NOT} ~~NON~~ JOB-RELATED. THIS PROTECTION WILL BE PARTICULARLY BENEFICIAL TO THE SHORT SERVICE EMPLOYEE WHO HAS AN EXTENDED ILLNESS AND CURRENTLY RECEIVES NO INCOME AFTER EXPENDING ^{HIS} ~~THEIR~~ ACCRUED SICK LEAVE.

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WE ARE ALSO IN FAVOR OF THE REQUIREMENT THAT INDIVIDUALS RECEIVING DISABILITY BENEFITS WILL BE SUBJECT TO PERIODIC MEDICAL REEVALUATION AND WILL BE REQUIRED TO REPORT THEIR EARNINGS EACH YEAR. THESE FEATURES SHOULD ASSIST IN THE IDENTIFICATION AND TERMINATION OF BENEFITS FOR ANY QUESTIONABLE DISABILITIES THAT MAY EXIST.

THE PROVISION TO PROVIDE BASIC LIFE INSURANCE, AT NO COST TO EMPLOYEES, IS ONE WE SUPPORT. AS YOU KNOW, THE POSTAL SERVICE HAS PROVIDED BASIC LIFE INSURANCE TO ALL CAREER EMPLOYEES, WITHOUT CHARGE, SINCE JULY 1974.

WE FIND THE TRANSITION PROVISIONS SOMEWHAT UNCLEAR WITH REGARD TO PARTICIPANTS IN THE CURRENT CIVIL SERVICE SYSTEM WHO MAY ELECT TO PARTICIPATE IN THE NEW CIVIL SERVICE PENSION SYSTEM. WHILE WE HAVE NO RECOMMENDATIONS AS TO ENTITLEMENT, SHOULD AN EMPLOYEE CHANGE SYSTEMS, WE STRONGLY URGE THAT ALL ENTITLEMENTS BE VERY CLEARLY AND SPECIFICALLY SPELLED OUT. THE DECISION WHETHER TO CHANGE SYSTEMS WILL BE A COMPLICATED AND DIFFICULT ONE FOR MOST EMPLOYEES. WE RECOMMEND THAT THESE INDIVIDUALS RECEIVE ACTUARIAL ADVICE AS TO WHAT HAPPENS TO THEIR RETIREMENT TO ASSIST THEM IN MAKING THEIR DECISION.

WE ARE IN AGREEMENT WITH THE CONCEPT THAT THE BASIC PLAN BE FULLY FUNDED. AS YOU ARE AWARE, THE POSTAL SERVICE CURRENTLY MAKES PAYMENTS FOR THE UNFUNDED LIABILITY PORTION OF THE CIVIL SERVICE

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RETIREMENT SYSTEM ATTRIBUTABLE TO GENERAL SALARY INCREASES FOR EMPLOYEES. THE PROPOSED BILL REQUIRES SUPPLEMENTAL LIABILITY PAYMENTS, SHOULD THEY BE NECESSARY, FROM NOT ONLY THE POSTAL SERVICE BUT ALSO THE REST OF THE FEDERAL GOVERNMENT. WE DO, HOWEVER, HAVE ONE MAJOR CONCERN WITH THE BILL IN THE AREA OF FUNDING. THE BILL, AS PROPOSED, WILL PERMIT OPM TO MAKE A UNILATERAL DETERMINATION, WITHOUT NOTICE, OF WHAT WILL BECOME A MAJOR ELEMENT OF COST TO THE POSTAL SERVICE AND A PRINCIPAL COMPONENT OF POSTAGE RATES. WHILE OTHER AGENCIES WILL PAY THESE COSTS FROM APPROPRIATIONS, THE POSTAL SERVICE MUST LOOK TO POSTAGE REVENUES FOR THE NECESSARY FUNDING. THE POSTAL SERVICE DOES NOT HAVE THE AUTHORITY TO INCREASE POSTAGE RATES EITHER UNILATERALLY OR IMMEDIATELY. OUR ABILITY TO PLAN TO MEET OUR OBLIGATIONS AND OUR CONFIDENCE IN WHATEVER BILLINGS WE RECEIVE ARE DEPENDENT ON RECEIVING SUFFICIENT ADVANCE NOTICE OF PROPOSED CHARGES AND THE OPPORTUNITY FOR OUTSIDE IMPARTIAL REVIEW OF UNDERLYING ASSUMPTIONS AND DATA. THESE ITEMS ARE VITAL IF WE ARE TO FULFILL OUR OBLIGATIONS IN THE AREAS OF POSTAL RATES AND FISCAL RESPONSIBILITY, AS REQUIRED BY LAW.

IN ADDITION TO THE COST ASPECTS OF THE PLAN, THERE ARE CERTAIN BENEFIT ISSUES THAT CONCERN US. THE LACK OF ANY ANNUITY FROM THE BASIC FUND FOR DEPENDENT CHILDREN OF A DECEASED EMPLOYEE IS ONE OF OUR CONCERNS. WHILE WE ARE AWARE THAT SOCIAL SECURITY WILL PROVIDE SOME INCOME IN THIS SITUATION, WE BELIEVE THAT SOME

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ANNUITY, EVEN A SMALL ONE, SHOULD BE PROVIDED FROM THE FUND. THE ANNUITY COULD BE CALCULATED ON THE AGE OF THE CHILD AT THE PARENT'S DEATH AND THE NUMBER OF YEARS IT WOULD BE PAID.

ANOTHER AREA OF CONCERN WE HAVE IS THE ABSENCE OF AN IMMEDIATE SURVIVOR ANNUITY IN THOSE INSTANCES WHERE THE EMPLOYEE WAS NOT YET ELIGIBLE TO RETIRE AT THE TIME OF DEATH. THE EFFECT OF THIS LACK OF IMMEDIATE ANNUITY MIGHT BE MINIMAL IN THE CASE OF A WORKING SPOUSE BUT IS POTENTIALLY DEVASTATING IN THE CASE OF A NONWORKING SPOUSE LEFT WITH DEPENDENT CHILDREN. IN THESE CASES, THERE WOULD BE NO SURVIVOR ANNUITY AND NO DEPENDENT CHILD ANNUITY FOR WHAT COULD CONCEIVABLY BE A LONG PERIOD OF TIME IN THE CASE OF AN EMPLOYEE WHO DIES RELATIVELY YOUNG. WE RECOMMEND THAT A SURVIVOR ANNUITY BEGIN ON THE FIRST DAY OF THE FIRST FULL MONTH AFTER THE EMPLOYEE'S DEATH AND THAT THE AMOUNT BE ACTUARIALLY DETERMINED BASED ON THE SURVIVING SPOUSE'S AGE.

THE BILL DOES NOT CONTAIN ANY REQUIREMENT FOR MANDATORY RETIREMENT FOR LAW ENFORCEMENT OFFICERS, AS IS PROVIDED UNDER THE CURRENT RETIREMENT SYSTEM. THE INCREASED YEARS OF SERVICE REQUIRED FOR AN IMMEDIATE ANNUITY FOR A LAW ENFORCEMENT OFFICER WILL RESULT IN AN OLDER WORKFORCE IN THE POSTAL INSPECTION SERVICE, AN OCCURRENCE WE DO NOT BELIEVE SUITABLE FOR VIGOROUS LAW ENFORCEMENT. THIS 5-YEAR EXTENSION IN ELIGIBILITY MAKES IT ALL THE MORE IMPERATIVE THAT THIS BILL CONTAIN A PROVISION SIMILAR TO THE CURRENT RETIREMENT SYSTEM ^{TO} ~~AND~~ PROVIDE FOR MANDATORY RETIREMENT AT AGE 55 FOR ⁹ ~~ALL~~ LAW ENFORCEMENT OFFICERS.

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IN CONCLUSION, WITH THE EXCEPTION OF THE CONCERNS EXPRESSED, WE BELIEVE THE BILL WILL PROVIDE A RETIREMENT SYSTEM FOR OUR EMPLOYEES WHICH FULFILLS THE MAJOR INGREDIENTS WE BELIEVE MAKE A GOOD RETIREMENT PROGRAM.

I WOULD BE HAPPY TO ANSWER ANY QUESTIONS.